

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 8127

BILL NUMBER: HB 1777

DATE PREPARED: Jan 20, 1999

BILL AMENDED:

SUBJECT: Increases property tax deduction for seniors.

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FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill increases the assessed value deduction for the elderly from \$1,000 to \$5,000. It limits the deduction to one-half the assessed value of the real property. The bill also increases the income level to qualify for the deduction from \$20,000 to \$35,000.

Effective Date: July 1, 1999; January 1, 2000; March 2, 2001.

Explanation of State Expenditures:

Explanation of State Revenues: The State levies a one cent tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The provisions of this bill would reduce this amount by about \$65,000 annually.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law, homeowners age 65 and older may claim a \$1,000 AV deduction against the assessment of their homestead if the AV of the homestead does not exceed \$21,000 and the combined adjusted gross income (AGI) of the owner(s) does not exceed \$20,000. This bill would increase the deduction amount to \$5,000 (up to ½ of the home's value) and the AGI limit to \$35,000.

For 1997 pay 1998, the "Age 65" deduction totaled \$108 million in assessed valuation (AV) statewide. The combination of increasing the deduction amount and increasing the AGI limit would increase the total deduction by an estimated \$653 million through CY 2001 and \$660 million in CY 2002 and thereafter.

Additional deductions reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. The above reduction in assessed value would cause a \$0.1057 increase in the statewide average net property tax rate for

an estimated net tax burden shift of \$58 million in CY 2000. The shift in future years is estimated at \$59.6 million in CY 2001, \$54.6 million in CY 2002, \$56.0 million in CY 2003, and \$57.5 million in CY 2004. The smaller shift in CY 2002 is explained by the general reassessment scheduled to take effect in CY 2002. The reassessment will cause a reduction in the tax rate which would reduce the shift associated with the AV deduction amount.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

This impact assumes that all eligible recipients of the proposed credit will file for the credit as soon as it would be effective.

State Agencies Affected:

Local Agencies Affected: County Auditors.

Information Sources: Property Tax Analysis, State Board of Tax Commissioners; Local Government Database; U.S. Dept. of Commerce, Bureau of the Census; Consumer Expenditure Survey, U.S. Bureau of Labor and Statistics.